Value Appropriation in Business Process Outsourcing

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Abstract

We examine the relative value gains between client and vendor firms following the announcement of a BPO deal. We posit that the gains for the vendor are higher than those of the client when clients outsource primary tasks with intent to access vendor capabilities and when the clients outsource peripheral tasks with intent to minimize costs. We also posit that the gains for the clients are higher than those of the vendor when the clients outsource primary tasks with intent to minimize costs and when the clients outsource peripheral tasks to access vendor capabilities. Using an event study methodology we examine 221 BPO contracts between the years 2000 and 2013 to test our hypotheses. In general we found that, when clients outsourced with the intent to reduce costs, the vendors gained relative to the client for both primary and peripheral tasks. We interpret and discuss these findings and research implications.

Keywords
Business Process Outsourcing, event study, value appropriation

Introduction

Existing research on identifying the benefits of firms outsourcing their business processes is largely from the perspective of the client (Dos Santos et al., 1993; Hayes et al., 2000; Oh et al., 2006; Ranganathan and Brown, 2006) with a few scant studies exploring the vendor perspective (Levina and Ross, 2003; Madison et al., 2006; Nagpal et al., 2014). The BPO initiatives are largely driven by the client with the intent of reducing operating costs, gain efficiency or to focus on their core operations. While the gains through BPO have been examined largely from the client perspective such as identifying the absolute cost savings, or increase in operational efficiencies (Loh and Venkatraman, 1992; DiRomualdo and Gurbaxani, 1998), there is a gap in the research on identifying the value created for vendors in a BPO context.

While outsourcing appears to be a win-win approach to both clients and vendors, studies have highlighted that not all outsourcing endeavors generate value for clients with some studies highlighting that only half the firms realized the gains out of outsourcing (Aron and Singh, 2005). This coupled with the fact that while a profitable proposition, BPO might not reward all vendors. Firms such as IBM exiting the customer management services industry and Serco Global services reporting continuous losses further this argument. Moreover, the fact that some clients are resorting to reversing their outsourcing decisions (such as JP Morgan in 2004 and General Motors in 2012) highlight the uncertainty in the industry for both the clients and vendors. Despite the volatility, the industry is set to grow at over 10% per annum over the next few years based on a survey by Deloitte. Research on outsourcing indicates that clients are the primary beneficiaries of the value created through outsourcing (Insinga and Werle, 2000). From the client's perspective, outsourcing has traditionally been driven by cost saving initiatives (Loh and Venkatraman, 1992; Lacity et al., 2009).

The motivation for the paper is two fold. The first is to address the gap in the literature on the vendor perspective. While BPO is an important phenomenon with studies have extensively explored the impact from the perspective of outsourcing location (Iacovou and Nakatsu, 2008), outsourcing motive (DiRomualdo and Gurbaxani, 1998), firm size (Grover et al., 1994), industry attributes (Oh et al., 2006), nature of process (Lee and Kim, 2010), firm culture (Oh et al., 2006), the impact of outsourcing announcement on stock prices (Loh and Venkatraman, 1992; Farag and Krishnan, 2003) and the risks associated with outsourcing (Aron and Singh, 2005). All the above studies are from the perspective of the client with the vendor perspective, while they are subject to the same limitations, i.e., undertaking risky contracts, hold up issues etc. remains largely unexplored. The second motivation is that, given an outsourcing contract, the gains and risks associated are largely different for both the client and vendor. From the vendor's perspective, beyond the obvious financial gain, firms take up outsourcing contracts to access client networks and to enter new domains and markets (Sen and Shiel, 2006). While there is strong empirical evidence to support client value gains (Loh and Venkatraman, 1992; Agrawal et al., 2006), similar systematic studies about vendor value gains are scant in the literature. The growth in the BPO industry highlights the fact that vendors too find it to be an attractive proposition for them to enter with significant rent generation potential. This suggests that value gains for the vendors too are likely to be significant. However a more nuanced question that is of interest to us in this paper are the relative value gains between the client and vendor and contexts in which such value gains occur. The relative gains perspective provides us with the advantage of comparing the impact a BPO announcement has on the value of both the client and vendor firms for a given contract. In addition to the above this approach allows us to compare the mode in which our hypothesized factors (in this case outsourcing intent and nature of task) impact the client and vendor firms simultaneously.

The first phase of outsourcing consisted of clients moving some of their peripheral non-core tasks to external vendors who could perform the same task at lower costs. These vendors were able to do so by realizing economies of scale or through labor arbitrage by moving tasks offshore. Recent shifts in the industry indicate that outsourcing has moved from peripheral processes to core processes in firms such as research and development, logistics and supply chain services. In such contexts, in addition to the clients, the vendors are increasingly able to capture a larger share of the value generated out of such arrangements. The factors that drive the relative values gains between the client and vendor motivate our study. While we expect that, in general, the gains for vendors might be positive similar to those experienced by the clients, our study does not consider the absolute gains or losses associated with BPO. This study evaluates the relative differences in the gains generated from a BPO announcement for both the client and the vendor and seeks to identify the factors that drive the relative difference in gains between the client and vendor. Specifically we examine how the client intent in outsourcing and the nature of the process outsourced influence the relative value gains.

We posit that the gains for the vendor are higher than those of the client when clients outsource primary tasks with intent to access the vendor capabilities and, when the clients outsource peripheral tasks with intent to minimize costs. In addition to the above, we expect the gains for the clients to be higher than those of the vendor when the clients outsource primary tasks with intent to minimize costs and when the clients outsource peripheral tasks to access the vendor capabilities. Using an event study methodology we examine 221 BPO contracts between the years 2000 to 2013 to test our research hypotheses. The rest of the paper is structured as follows; we highlight the existing research on business process outsourcing followed by the theoretical framework and a summary of the literature used to arrive at our hypotheses. The subsequent sections describe the data used, the empirical methods and the statistical analysis. The paper concludes with a discussion of our findings and directions for future research.

Theory and Background

Business Process Outsourcing

Business process outsourcing has its origins in manufacturing, where firms leveraged external vendors for supply chain management capabilities (Tas and Sunder, 2004). It has now evolved into an industry that is expected to be over $200 billion by the year 2017, with firms outsourcing nearly all aspects of operations to external vendors. Firms outsourcing their information technology operations to firms located in or operated out of countries such as India and Philippines largely drove the initial impetus for the BPO industry. Availability of a large pool of high skilled, low cost workforce ensured that firms were able to obtain the required results at significantly lower costs. BPO is also seen as a precursor to knowledge process outsourcing, where firms are now outsourcing highly knowledge intensive tasks such as research and development, legal services and market research to external vendors (Mudambi and Tallman, 2010).

In a BPO arrangement, value is created for both the client and vendor through two mechanisms. The first, when there is a comparative efficiency between the stakeholders and second, when firms develop new capabilities. When clients outsource their operations to an external vendor, they gain by either minimizing operating costs or by obtaining access to a unique resource or capability to develop the best possible bundle of their offerings. Vendors too gain by comparative efficiencies, in this case, by undertaking the task for the client at lower costs or through an increase in reputation when clients seek them out to access a unique resource or capability. The relative gains in a BPO arrangement are a function of the bargaining power of the stakeholders and the potential for future rent generation through spillovers.

The transaction cost arguments frame outsourcing as a make or buy decision (Levina and Ross, 2003; Loh and Venkatraman, 1992; Williamson, 1979, 1985). The resource based arguments approach outsourcing from the perspective that firms leverage external resources in an efficient manner to create value. We build on both the resource-based view and the transaction cost perspectives to identify the factors that drive the relative difference in gains in a BPO context. The resource-based view of the firm argues that a firm is able to attain a sustained competitive advantage when it is in possession of a valuable, rare, in-imitable and non-substitutable (VRIN) resource or capability (Wernerfelt, 1984; Barney, 1991). Thus when firms search for these resources beyond the boundary of the firm, they do so either due to their inability to develop them internally or when they can be sourced more cost effectively (Parmigiani, 2007). Research highlights that firm's ability to optimally decide between the market and hierarchy to obtain the resource forms a critical component of the core competency of the firm (Dyer, 2000). Thus a client firm that outsources with intent to access vendor capability or vendor network might do so because it would be more efficient to obtain the same from the market than develop internally. In a similar manner when a client outsources with intent to access vendor capabilities, in addition to developing the best possible bundle of offerings, it is also signaling the vendor's ability to acquire and hold key resources or capabilities. When clients outsource to an external vendor, in case of a capability driven intent, the client has the opportunity to learn from the vendor while the vendor gains by increasing its knowledge base and its reputation. When the clients outsource with the intent of cost reduction, they gain through market efficiencies while the vendors gain through comparative efficiencies in executing the task. Thus, we use outsourcing intent as one of the dimensions of the framework.

One of the key challenges to buyer-supplier relationship is that of the *"hold up problem"* (Hart, 1995) which for an opportunistic partner, provides a platform to extract the most out of a given transaction. The opportunistic perspective (Klein et al., 1978) determines the emphasis a vendor or a client places on the task outsourced in a particular contract. Research highlights the role of relative bargaining power (Coff, 1999; Lavie, 2009), proximity in operations (Lavie, 2007) and the costs associated with opportunistic vendors (Das et al., 1998; Coff, 1999; Phene et al., 2014) as factors influencing appropriation of value in cooperative endeavors. The propensity of a stakeholder to be opportunistic is driven by the relative bargaining power and the potential for future rent generation due to spillovers resulting from externalities of the arrangement. The bargaining power in such an arrangement is largely driven by the priority the client places on the task as the nature of task influences the relation specific resource commitment (asset specificity). Thus lower levels of resource commitments could lead to firms being opportunistic. This mechanism has been identified as a driver of value appropriation in co-operative endeavors (Kumar, 2008; Lavie, 2007). The other factor that could drive the relative difference in value gains is that of the benefits from spillovers that are accrued by the stakeholders. The extent of resource commitment and the priority assigned to the task by the client influences the potential for spillovers. Primary activities such as logistics and research and development require a significant amount of relation specific investments for the stakeholders and hence firms would be able to capitalize on their investments and also learn from each other. On the other hand, clients reaching out to specialized vendors for peripheral tasks are able to assemble the best possible bundle of offerings and thus obtain a competitive advantage. Thus, we use the nature of task, identified by the position of the task on the client's value chain as one of the dimensions of the framework. The framework for our study is described below:

Who gains in a BPO arrangement?			
		Outsourcing Intent	
		Access to Vendor Capability	***Cost reduction***
Position of Task in Value Chain	***Primary Activity***	H1: When clients outsource primary business activities with intent to access the vendor capabilities, the vendor is likely to gain more than the client.	H3: When clients outsource primary business activities with intent to reduce operating costs, the client is likely to gain more than the vendor.
	Peripheral Activity	H4: When clients outsource peripheral business activities with intent to access vendor capabilities, the client is likely to gain more than the vendor	H2: When clients outsource peripheral business activities with intent to reduce operating costs, the vendor is likely to gain more than the client

Figure 1:Value Appropriation Research Framework

Outsourcing Intent

The intent behind outsourcing has changed as the processes outsourced have evolved from peripheral tasks to primary activities. Firms have moved from a focus on cost reduction to a more strategic view of effective resource structuring (Gray et al., 2009; Holcomb and Hitt, 2007). Studies have found that firms that outsourced with a cost reduction motive experienced lower gains than those that outsourced with a strategic intent (Farag and Krishnan, 2003). While the above studies are from the perspective of the client, vendors are moving from being low cost providers to being key players who are sought out for their skills and capabilities. This is evident from vendor firms increasingly transitioning from suppliers to that of strategic partners that are responsible for key tasks such as R&D and logistics management. This could also put the vendor in a position of strength, as it would indicate the possession of a key resource or capability that is valuable for the client.

Position in the Value Chain

We use the value chain framework developed by Porter (1985) to identify the location of the task outsourced based on the primary operations of the client. The core competency view of competition highlight that firms should be outsourcing only peripheral activities (Prahalad and Hamel, 2006). The knowledge-based perspective highlights that primary tasks might be subject to time compression diseconomies (Dierickx and Cool, 1989) and could lead to firms being unable to reclaim the capability once moved outside the firm boundary. The other issue is the risk associated with transferring ownership of critical tasks as firms might be faced with opportunistic vendors (Klein et al., 1978; Hart and Moore, 1990; Hart, 1995), which could lead to firms being held up. While outsourcing primary tasks might be perceived as detrimental to the firm strategy in the long run, studies have found that outsourcing primary activities had a greater positive impact on client firm valuation than when firms outsourced peripheral tasks (Duan et al., 2009). The rationale behind this finding was that the investors found outsourcing primary tasks being a signal of increased operational efficiency, while outsourcing peripheral tasks was perceived as having lesser than significant impact on the firm operations. Moreover, firms are sometimes incentivized to outsource core activities in part because efficient sourcing could be considered as a core-competence of the firm (Dyer, 2000).

Hypotheses

When clients outsource primary business activities with intent to access the vendor capabilities, it affords the vendor with a high degree of bargaining power, as the task is key to the core operations of the client firm. The bargaining power is further enhanced in favor of the vendor as the opportunity for hold up is significantly higher for the vendor and hence vendors are able to extract premium rents in such a situation. In addition to the bargaining power, such an arrangement has the potential to generate significant rents for the vendors due to the high level of spillovers in terms of vendor learning and due to the task being higher up in the value chain. In addition to being exposed to the risk of an opportunistic vendor, clients might face higher coordination and monitoring costs due to the proximity of the task to the core firm operations. Thus we hypothesize the following relationship:

Hypothesis 1: When clients outsource primary business activities with intent to access the vendor capabilities, the vendor is likely to gain more than the client.

When the clients outsource peripheral business activities with intent to minimize costs, they do so to eliminate the inefficiencies in managing these tasks and because it is deemed financially prudent for them to divert resources to primary tasks. Due to the task being peripheral in nature, the likelihood of client's investing in developing superior capabilities is low and hence could explain the inefficiencies. While the clients experience gains in operational efficiencies post-outsourcing, the vendors could gain on two fronts. The first is by removing the inefficiencies of the client, which usually results in quick gains for the vendor. The second is through the fact that, by incurring only a marginal expense in undertaking the task due to their operational capabilities and due to them possessing prior infrastructural and knowledge assets related to the industry, the vendors can further extend their gains. Accessing a vendor for cost minimization would imply that the vendors are already established in the particular domain and are operating by leveraging on economies of scale or through labor arbitrage. Thus we hypothesize the following relationship:

Hypothesis 2: When clients outsource peripheral business activities with intent to reduce operating costs, the vendor is likely to gain more than the client.

In addition to the above, we explore two other relationships, these are clients outsourcing primary business activities with intent to minimize costs and clients outsourcing peripheral business activities with intent to access vendor capabilities.

When a client outsources a primary activity with intent to minimize cost, they do so while possessing the capability to execute the task, but would be cost effective for them to obtain the same from the market rather than internally. This minimizes the potential of being held up by an opportunistic vendor. This relationship, while accompanied with a certain degree of risk, could benefit the client in the long run as the client is able to effectively monitor the task due to them prepossessing the knowledge of the task and hence realizing cost advantages. By reaching out to an external vendor with intent to reduce costs, the clients also signal the ability to be financially prudent, thus providing the most value to investors. However, for the vendor firms, the effect might be detrimental. By taking on such a task, while signaling their competency to the market, the stakeholders of the vendor firm might view the vendor firm in a negative light due to the risk involved. This risk stems from the fact that undertaking an outsourcing contract for primary activities require unique investments by the vendor, which is accompanied by a high degree of asset specificity. Thus we hypothesize that:

Hypothesis 3: When clients outsource primary business activities with intent to reduce operating costs, the client is likely to gain more than the vendor.

The second relationship is when the client outsources a peripheral task with intent to access vendor capability. While a peripheral task might not be considered a priority for the client, it is still a component of the firm's operations and hence consumes resources that would otherwise be diverted to a primary task. By accessing an external vendor for its capabilities, the client now has the best possible bundle of resources and capabilities at its disposal that could potentially afford it a sustained competitive advantage. The clients also gain through positive spillovers generated by accessing a specialized vendor. In addition to the above, accessing a vendor for its capabilities, even for a peripheral task might improve the overall operating efficiency for the client and might be considered as a value enhancing proposition for the client in the long run. Thus we hypothesize that:

Hypothesis 4: When clients outsource peripheral business activities with intent to access vendor capabilities, the client is likely to gain more than the vendor.

Methodology

We used an event study to determine the impact of outsourcing announcements on the client and vendor firm value. This approach, pioneered by Brown and Warner (1985), has been used in a number of studies aimed towards determining the impact of an event on the firm's stock value. The events in this case could be that of IT investments (Dos Santos et al., 1993); acquisitions (Chatterjee, 1986); joint venture announcements (Koh and Venkatraman, 1991); outsourcing service processes (Lee and Kim, 2010); mergers and acquisitions (Swaminathan et al., 2008). The rationale behind the event study method is that firm activities are perceived in a negative (value destroying) or positive (value enhancing) manner by investor's and hence is reflected in them expressing their confidence or lack of it with regard to firm operations as indicated in the firm's stock price. The estimation period for our study was 250 days with the returns obtained over a 11 day window. This approach is consistent with those used by other event studies on outsourcing (Oh et al., 2006; Ranganathan and Brown, 2006; Agrawal et al., 2006).

The returns are calculated based on the market model which tracks the changes in the price of the stock in relation to that of the market index. The daily returns are obtained from the CRSP database. We estimate the predicted returns using the market model, obtained by regressing the firm stock returns against those of the market over a period leading up to the event. The return is then predicted using the equation below:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \qquad (1)$$

Where R_{it} represents the return on security i on day t, and R_{mt} represents the daily market return on the index on day t. The estimates from the market model are used to obtain the returns for the stock i across the event window. This is obtained using the equation below:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \qquad (2)$$

α_i and β_i are the OLS (ordinary least squares) estimates obtained by regressing R_{it} over R_{mt} across the estimation period (t). We also obtain the cumulative abnormal returns (CAR) for each firm over the event window. The CARs represent the sum of the abnormal returns over the window.

Data and Sample

Our data consists of outsourcing announcements made by large public firms in the United States between the years 2000 and 2013. These announcements were collected from news outlet databases such as Lexis-Nexis, PR Newswire and Factiva. We started with an initial set of 620 announcements out of which 347 announcements had information for the vendors. To obtain the abnormal stock returns, both the vendor and the client had to be listed on American stock exchanges and their data available on the CRSP (Center for Research in Security Prices) database. Our final sample consisted of 221 firms that fit these criteria and had information on the outsourcing intent and nature of task outsourced.

The outsourcing intent was explicitly stated in the announcement and was coded accordingly. To determine the position of the task outsourced in the value chain, we used Porter's value chain framework (1985, 1986) that is utilized by Duan et al., (2009) to determine if the task was a primary or a peripheral task. This framework describes a primary activity as those that are part of the end-to-end activities associated with the design, production, marketing and the delivery of the good or service to the end customer. Peripheral tasks are those that aid the primary tasks and include activities such as procurement, human resource management etc.

Our data set consists of 99 announcements with intent coded as access to vendor resources or capabilities, 122 announcements with intent coded as cost reduction. For the position of the task on the client firm's value chain, 86 announcements were coded as primary tasks and 135 announcements were coded as peripheral tasks. To the best of our knowledge, we eliminated entries that were made in proximity to other announcements such as mergers or financial results to avoid confounding effects from these.

Results

We use the approach highlighted by Johnson and Houston (2000), who examined the gains in joint ventures based on the motive and nature of contract. The first part of our analysis contains the absolute dollar amount of the abnormal returns for the clients and vendors as the dependent variable for which we ran ANOVAs that factored in the outsourcing intent and position of task on the value chain. We found that the overall model and the intent were significant for the vendor abnormal returns, but did not find support for the client abnormal returns. The results are summarized in Table 1 below.

	ANOVA DV = Vendor CAR (-1,0)					ANOVA DV = Client CAR (-1,0)				
	OBS=	221		R-Sq=	0.0365	OBS=	221		R-Sq=	0.0152
	Root MSE=	1082.33		Adj R-sq=	0.0232	Root MSE=	1084.7		Adj R-sq=	0.0016
Source	Partial SS	df	MS	F	Prob > F	Partial SS	df	MS	F	Prob > F
Model	9631893	3	3210631	2.74	0.0442	3942352	3	1314117	1.12	0.3431
Position in VC	3779494	1	3779494	3.23	0.0739	3705991	1	3705991	3.15	0.0773
Intent	4933308	1	4933308	4.21	0.0414	14643	1	14643	0.01	0.9113
Position X Intent	1814988	1	1814988	1.55	0.216	59362	1	59362	0.05	0.8225
Residual	254200774	217	1171432			255316465	217	1176574		
Total	263832666	220	1199239			259258816	220	1178449		

Table 1: Results of ANOVA on Factor Variables

To identify the relative gains in BPO relationships to test our hypotheses, we ran comparative tests for the absolute dollar values of the client and vendor abnormal returns. For the overall sample of client and vendor firms, we found that the gains for the vendor (M=152.91, SD=1095.1) were significantly higher than those of the client (M=-50.61, SD =1085.56), t (220)=-2.101, p<0.05. We found significant support for hypothesis 2 (clients outsourcing peripheral business activities with intent to access vendor capabilities), with the vendor (M=98.92, SD=819.98) having significantly higher gains than the client (M=-177.68, SD =1145.84), t (76)=-1.7675, p<0.05. For hypotheses 3 (clients outsourcing primary business activities with intent to reduce operating costs), we found that the results were significant, but in the direction opposite to the one that was proposed in the initial hypothesis. While we expected the clients to gain more than the vendor, we found that the gains were significantly higher for the vendors (M=555.1, SD=2106.888) than for the clients (M=-122.90, SD =973.92), t (44)=-1.3659, p<0.10. We did not find significant support for hypothesis 1 and hypothesis 4. The results are summarized in Table 2 below. In general we found that, when clients outsourced with intent to reduce costs, the vendors gained relative to the client for both primary and peripheral tasks. This signals both the ability of vendors to efficiently execute activities that are close to the core operations of the clients and that vendors were able to operate at significant cost efficiencies for peripheral tasks.

Paired t-test CLIENT_CAR (-1,0) == VENDOR_CAR (-1,0)						
Variable	Obs.	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
Full sample						
Client CAR	221	-50.605	73.02294	1085.564	-194.519	93.30901
Vendor CAR	221	152.9058	73.66426	1095.098	7.727863	298.0837
diff	221	-203.5108	96.83818	1439.603	-394.36	-12.66155
mean(diff) = mean(CLI_AB_CAR10 - PR_AB_CAR10)						***t = -2.1016***
Ho: mean(diff) = 0						degrees of freedom = 220
Ha: mean(diff) < 0			Ha: mean(diff) != 0			Ha: mean(diff) > 0
Pr(T < t) = 0.0184			Pr(|T| > |t|) = 0.0367			Pr(T > t) = 0.9816
Paired t-test CLIENT_CAR (-1,0) == VENDOR_CAR (-1,0)						
Variable	Obs.	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
Hypothesis 2: Clients outsourcing peripheral business activities with intent to access vendor capabilities						
Client CAR	77	-177.6871	130.581	1145.844	-437.7618	82.38758
Vendor CAR	77	98.92941	93.44566	819.9823	-87.18375	285.0426
diff	77	-276.6165	156.5019	1373.299	-588.3171	35.08405

mean(diff) = mean(CLI_AB_CAR10 - PR_AB_CAR10)						***t = -1.7675***
Ho: mean(diff) = 0						degrees of freedom = 76
Ha: mean(diff) < 0			Ha: mean(diff) != 0			Ha: mean(diff) > 0
Pr(T < t) = 0.0406			Pr(|T| > |t|) = 0.0812			Pr(T > t) = 0.9594
Paired t-test CLIENT_CAR (-1,0) == VENDOR_CAR (-1,0)						
Variable	Obs.	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
Hypothesis 3: Clients outsourcing primary business activities with intent to reduce operating costs						
Client CAR	45	122.902	145.1838	973.9226	-169.6967	415.5008
Vendor CAR	45	555.1076	314.0763	2106.888	-77.87149	1188.087
diff	45	-432.2056	316.4331	2122.698	-1069.935	205.5234
mean(diff) = mean(CLI_AB_CAR10 - PR_AB_CAR10)						***t = -1.3659***
Ho: mean(diff) = 0						degrees of freedom = 44
Ha: mean(diff) < 0			Ha: mean(diff) != 0			Ha: mean(diff) > 0
Pr(T < t) = 0.0895			Pr(|T| > |t|) = 0.1789			Pr(T > t) = 0.9105

Table 2: Results of Paired t-tests

Discussion and Implications

The key motive behind the study was to identify factors that explained the differences in the value generated for the client and vendor firms following the announcement of a BPO relationship. While we found partial support for hypotheses that were driven by cost reduction intent, we did not find support for ones that relied on clients outsourcing with intent to access vendor capabilities. A possible explanation for this could be that we did not factor in the potential for spillovers and the irreversibility in the contracts. When clients outsource with intent to access vendor capabilities, there could be potential spillovers that might influence the relative gains in the outsourcing arrangement. Thus, while the client might reap the rewards in the short run, by moving a primary chain activity to an external vendor, it might be detrimental in the long run as they might not be able to re-learn/develop these tasks further, might lose out on associated innovations and could lose a valuable capability associated with the primary task. This could partially explain our results.

While this study is one of the few that approaches outsourcing from the vendor perspective there remains a gap in studies on how the outsourcing industry has impacted vendor firms. A large number of firms from Asia have evolved from being vendors into having their own product lines and have managed to compete with the clients they contracted with. This coupled with the fact that there is growing dissidence towards the practice of outsourcing and offshoring among both, the employees of the firm and the public at large, the impact of potentially reduced outsourcing would also be a significant factor that could impact the survivability of vendor firms. Thus both client and vendor firms might have to balance the exploration and exploitation of their resources and capabilities to sustain themselves in the long run.

Limitations and Future Directions

We undertook this study to identify the factors that could influence appropriation of value that was generated in a business process-outsourcing endeavor. While we strived to obtain the best possible explanation for this, our study does have its set of limitations. While we did not find significant results for some of our hypotheses, future research could extend to include factors such as contract duration and account for the effect of spillovers on the value appropriation process. The second limitation is that our sample is limited to large public clients and vendors and to those who decided to announce the BPO initiative. A large number of vendors are either small to medium scale firms that are not public or are located outside the United States, while these do form a significant component of the BPO industry, it is difficult to assess the value appropriated by these firms. While event studies provide a financial perspective of the value appropriation in BPO, the creation and appropriation of other value generated in such endeavors, such as enhanced firm capabilities or knowledge stocks would need a more thorough review with a deeper level of analysis to accurately determine the appropriation of value in such undertakings, these could be explored in future studies.

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